



# INSIDE SOUTHERN AFRICAN TRADE

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In this issue we look at logistics, transport and customs in the region. We find out what it takes to get goods to markets in Southern Africa, where we have come from, and where we are headed.

Recent studies by the World Bank, UN Conference on Trade and Development (UNCTAD), and others have attempted to quantify the potential losses or gains that can be attributed to either poor or excellent trade facilitation. World Trade Organization (WTO) Members are also negotiating an agreement in this area.

The findings of these studies are informative but, even without such academic studies, it is obvious that high logistics

and transport costs will negatively impact a company's ability to compete. This is especially clear considering that logistics costs in Southern Africa are almost double those of many of its trading partners and competitors elsewhere in the world.

In this issue we reflect on what is needed to create an environment in which business can compete and flourish.

We hope that you will enjoy this issue of INSAT and invite you to share your opinions and suggestions with us: [insat@satradehub.org](mailto:insat@satradehub.org).

Previous issues of INSAT are available on our website: [www.satradehub.org](http://www.satradehub.org).

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**SOUTHERN AFRICA**

# AROUND SOUTHERN AFRICA

## HIGH HOPES FOR GROWTH AT MOZAMBIKAN PORT

In May, stakeholders celebrated the ten-year anniversary of the Maputo Corridor with a bus-ride from Johannesburg to Maputo. If they had traveled non-stop, the 545 km journey would have taken a little more than 6 hours, where previously it used take up to 16 hours.

Getting goods to the Port of Maputo still takes much longer.

For example, rail cargo from Matsapa, Swaziland's manufacturing hub, takes almost an entire day to reach the Port of Maputo, which is only 228 kilometers away.

Trucks carrying cargo can be delayed for up to 6 hours as they clear the border posts at Lebombo in South Africa and Ressano Garcia on the Mozambican side. In addition, these border posts are only open between 7am and 10pm, meaning that trucks that arrive a little late have to spend the night at the border.

According to Pedro Pena, operations manager at the Maputo Port Container Terminal, the long border delays are just one reason why the Port of Maputo, although doing well, could be doing better.

The relatively few ships that call at Maputo's port and the poor condition of the railway between Ressano Garcia and Maputo, have also contributed to the underutilization of the Port of Maputo.

So, despite massive capital outlays and impressive infrastructure improvements the truth is that, ten years since the Maputo Corridor was opened for business, the port is still operating at less than a third of its capacity.

Still, the Maputo Port Development Company (MPDC) has great ambitions. It is hoping to increase tonnage passing through the Lebombo-Ressano Garcia border post to its immediate potential of 5.3 million tons in 2006/7 and up to 15.6 million by 2010.

Recent growth of traffic through the port is an indication of its growth potential.



**New High Security Entrance at the Port of Maputo: Heavy traffic is routed clear of Maputo's busy downtown area and is fed directly onto the new N4 Highway to South Africa**

The 6.4 million tons of throughput that was achieved in 2005 represents a 16 percent increase over the previous year. The MPDC is expecting a 100 percent increase in road traffic in 2006/7 and a fourfold increase in rail traffic this year.

The port's ultimate capacity is well in excess of 20 million tons, and in the short term it aims to attract the majority of traffic from South Africa's Gauteng area which accounts for 90 percent of the country's GDP. The Maputo Corridor is also the natural trading route for exports from Swaziland, the closest port to the industrial centers of Zimbabwe and it supports the rapidly strengthening industrial base of Maputo and southern Mozambique. Other potential clients include Zambia and Botswana.

According to *Cargo Info Africa*, a news service specializing in transport issues, the Port of Maputo may soon have a direct shipping service with the Far East as three lines are currently looking at possible Maputo calls on a Far East run.

But this potential can materialize only if rail services from South Africa are substantially improved and if the SA-Mozambique border at Lebombo/Ressano Garcia is opened up 24 hours per day

for freight traffic at a single, one-stop border post where customs documentation and processes are harmonized.

The much needed upgrade of the Ressano Garcia Railway, which was initially scheduled for completion in late 2006, has fallen victim to difficulties in finding a suitable concessionaire. Also, the planned modernization of the N4 border crossing between South Africa and Mozambique has not secured the necessary political support from both Mozambican and South African stakeholders.

Continual dialogue between the private and public sectors (primarily through the Maputo Corridor Logistics Initiative (MCLI)) and renewed commitments by the respective Heads of State during the centenary celebrations, may soon remove these last obstacles to opening up this natural trading route for business.

### CUSTOMS AND BUSINESS JOIN FORCES TO FACILITATE TRADE

The recently created SADC Customs-Private Sector Partnership Forum agreed earlier this month on an action plan that aims to reform customs procedures and

facilitate private sector participation in regional and national programs on customs reform.

The action plan identifies five priority areas that the Forum will address over the coming months;

- Establishment of appropriate means of communications, such as the resuscitation of regular stakeholder meetings at the national level;
- Capacity building of private sector organizations with respect to customs instruments and procedures;
- Simplification and reduction of customs documentation, and harmonization of trade facilitation procedures;
- Involvement of all relevant stakeholders in the Partnership Forum including Ministries of Finance and Trade, and increased participation of the private sector in regional and national programs;
- Integrity, for example, the implementation of an anti-corruption framework.

The Forum, created at the end of 2005, is the first such initiative to provide a platform for formal dialogue between customs authorities and the private sector. It brings together the heads of customs authorities in SADC countries and representatives of chambers of commerce. By facilitating a dialogue between business and public officials, sources say, the Forum will help address one of the most important obstacles to trade facilitation in the region: the lack of trust between customs authorities and business operators.

The drive to enhance public-private co-operation with respect to customs underlines the growing recognition among governments and businesses in the region of the critical importance of trade facilitation to improving the region's competitiveness in international markets. Complicated and unnecessary documentation for imports and exports, and cumbersome customs and border crossing procedures hinder trade flows and often lead to costs that could exceed tariff costs.

The Forum, sources say, will benefit not only its members but all cross-border operators thereby boosting intra-regional trade.

Many hope that the Forum will eventually lead to the creation of a customs-to-business standard that rewards firms with a good "compliance record" with simplified customs procedures.

## CUSTOMS OFFICIALS CHALLENGED BY WEB OF TRADE AGREEMENTS

The sheer volume of paperwork and the complexity of legislation and regulations involved in customs clearance at most Southern African border posts can be very confusing. As if this was not enough, customs officials and businesses have one more complication to deal with: a complex web of multilateral and bilateral agreements that link countries in the region and govern their trade relations.

### Overlapping Regional Agreements:

	SADC	SACU	COMESA
Angola	x		x
Botswana	x	x	
DR Congo	x		x
Lesotho	x	x	
Madagascar	x		x
Malawi	x		x
Mauritius	x		x
Mozambique	x		
Namibia	x	x	
South Africa	x	x	
Swaziland	x	x	x
Tanzania	x		
Zambia	x		x
Zimbabwe	x		x

Overlapping regional trade agreements represent a "spaghetti bowl". Five members of SADC belong to the long standing Southern Africa Custom Union (SACU), and eight are also members of the Common Market for Eastern and Southern Africa (COMESA). Tanzania is also a member of the recently revived East African Community. Zimbabwe has bilateral trade agreements with three of the five SACU countries – South Africa, Botswana and Namibia – and the SACU countries have a free trade agreement with Malawi. Many other Southern African countries have signed bilateral agreements. Each of these

agreements has its own rules of origin, benefits and tariff preferences.

"There are too many trade agreements in the region" says Ranga Munyaradzi, senior customs advisor at the Southern Africa Global Competitiveness Hub. "This multiplicity of trade agreements is not working well and is confusing [for customs officials and business]". Munyaradzi says that because producers and traders can choose the agreement under which they import goods into a country, customs officials have to fully understand the various provisions of different trade agreements to be able to apply the appropriate tariffs and rules.

But understanding the rules and regulations of the various trade agreements, Munyaradzi says, is a significant challenge, not only for customs officials, but also for businesses that need to understand which agreement grants the best preferential access for which products.

SADC and COMESA officials say they are well aware of the difficulties that overlapping trade agreements have been causing at different border crossings around the region.

Happias Kuzvinzwa, an advisor on customs and trade facilitation at the SADC Secretariat says customs authorities are in the middle of all the overlapping agreements, and they have to facilitate different trade regimes. Kuzvinzwa points out that the multiplicity of trade regimes that customs officials have to deal with makes it very difficult to improve the efficiency of customs procedures in Southern Africa.

What's more, the region seems to be moving towards an even more complex trading regime with SACU considering new trade agreements with China, MERCOSUR, India and others.

At the same time, COMESA and SADC are each developing their own transit bond guarantees – a system that aims to facilitate movement of goods across international borders and reduce costs and transit times. Their respective plans are in line with their respective agreements which have different implementation modalities. Munyaradzi says having each of the regional groupings develop-



ing their own bond guarantees will only make the customs procedures more cumbersome for both customs officials and businesses that will have to deal with two sets of similar documents with different logos.

While collapsing all these trade agreements into one, as in Europe, would seem like the most straightforward solution, this is unlikely to occur in the near term.

For now, harmonization of documents along transport corridors, as we are seeing along the Trans-Kalahari and Maputo Corridors, provides some reprieve for customs officials and business. Further investment in the training of customs officers may enable them to better manage their enormous task.

## DAR AND BEIRA PORTS HELD BACK BY TRANSPORT CONSTRAINTS

The Ports of Dar es Salaam and Beira provide natural gateways for minerals and other exports from several landlocked Southern African countries and both have made significant improvements to their efficiency over the past ten years. Yet throughput at these ports is well below capacity and annual growth has been lower than expected because there are simply no efficient connections to these ports.

While efforts to modernize and improve the ports continue, upgrades and improvements to the transport corridors that serve these ports have failed to take off at the levels required by business. Rail and road connections are in dire need of investment to increase their capacity, border crossings need to be modernized and upgraded to allow for quicker clearing, and private investors need to be enticed by good marketing and friendly policies.

In 2005, the Port of Dar es Salaam handled 4.8 million tons, well below its capacity of 10 million tons. Despite impressive general efficiency improvements at the port



**Truckers still spend a lot of time at border posts due to a multiplicity of documents and confusing trade rules**

over the last ten years, the time a container stays in the port awaiting collection has in fact increased from 16.6 days in 2002 to 20.2 days in 2005 due to slow takeoff by landside transport.

Exacerbating the situation is the added demand for transport services resulting from the significant investments being made in the Zambian Copperbelt and the Democratic Republic of the Congo (DRC).

Another port which is poised to provide a way for investors in the Copperbelt and DRC to get their goods to market is the Port of Beira on the central coast of Mozambique. It is also a strategic gateway for Zimbabwe and Malawi. However, road and rail access continue to be a constraint.

The current under-performance of the Ports of Dar es Salaam and Beira highlights the urgent need to address road and rail transport inefficiencies through investments to increase capacity.

In addition, there is also a need to upgrade the border posts within these corridors which were not designed for the current road traffic they are handling.

On the Dar Corridor, there is a need for more aggressive efforts to secure private participation in rail transportation from the port of Dar es Salaam to the DRC and to drastically reduce the excessive border delays, where it is not unusual for trucks to be delayed for four days.

The railway lines feeding the Port of Beira from Zimbabwe and Malawi have recently been concessioned. The Sena

Line from Beira to Malawi and the Moatize Coalfields in Mozambique's Tete Province had been virtually destroyed by years of civil war in that country. A World Bank-funded tender for the rehabilitation of the line is expected to be awarded in August 2006. The re-opening of the Sena Line is expected to trigger the export of significant volumes of coal from the Moatize Coalfields where a number of concessionaires are looking to start coal mining operations to meet the ever growing global demand for this commodity.

There are also plans to rehabilitate sections of the road network that feed into the Port of Beira. Work on the Nchope-Beira section that was extensively damaged by Cyclone Eileen in 2000 is expected to start in late 2006/early 2007. For the Chimoio-Tete-Zobue road, it is expected that the tendering process for construction work will be completed in 2007, leading to construction beginning in 2008.

These transport infrastructure improvements need to be complemented with improvements in the border crossing procedures to create competitive trade routes. The African Development Bank funded Beira Cross-Border Trade Facilitation Project identified bottlenecks along the corridor that need to be eliminated. SADC is sourcing funding to implement strategies for improving border crossing procedures. In this regard, both the Malawian and Mozambican authorities are keen to implement a one-stop border post at the Mwanza-Zobue Border post.

If throughput along these corridors is to be maximized, more integrated transport system planning and investment, focusing on corridors rather than purely national boundaries, is required. More important is the action required to secure private sector players, particularly to invest in the rail network to complement the investments in the ports. This would ensure a balanced capacity throughout the transport corridors, thereby eliminating bottlenecks.

## NEWS BRIEFS

### **BOTSWANA WELCOMES NAMIBIA'S OFFER FOR A DRY PORT**

Botswana has welcomed Namibia's offer to lease a piece of land at the Port of Walvis Bay for the development of a dry port for Botswana's trade.

"It is a way of extending our border," says Mmasekgoa Masire-Mwamba, the CEO of Botswana Export Development Agency. "Every opportunity to get us physical presence in the form of a port will give investors the confidence that we have an external facility."

Dr. Akolang Tombale, the permanent secretary in the Ministry of Minerals, Energy and Water Resources said the project would promote trade between Namibia and Botswana and give a boost to the Trans-Kalahari Corridor, which links the two countries.

He said the port would help cut transportation costs for Botswana's traders and reduce the amount of time it takes to deliver the country's imports and exports, which often suffer from significant delays due to the congestion at South African ports.

Botswana's private sector has also welcomed the dry port but argues that for the project to be more viable, it is essential to develop a railway link between the two countries.

### **SOUTH AFRICA: ROAD FREIGHT INDUSTRY GETS SERIOUS ABOUT FIGHTING CORRUPTION**

South Africa's road freight industry is developing a code of good practice in an effort to combat theft and corruption, which are believed to cost the industry R8 billion (\$1.2 billion) in losses each year.

According to *Cargo Info Africa*, labor and management in the road freight industry agreed to set up the code of good practice at a two-day summit held in Boksburg earlier this month.

They also developed a seven-step action plan which included a focus on ethics in the industry, greater awareness of training as a resource, and a need for engagement with government crime agencies and other stakeholders.

The industry plans to undertake research to identify best practices and conduct periodic reviews of the industry's fight against crime and corruption.

### **SAVE EXPORT SECTOR FROM COLLAPSE, IMF URGES ZAMBIA**

The International Monetary Fund (IMF) has advised Zambia to undertake structural reforms to keep its exports competitive following the steep appreciation of the Kwacha in recent months.

The appreciation of the local currency has eroded Zambian exporters' income by a third.

*AllAfrica.com* news service said that Dr. Joseph Kakoza, the IMF resident representative, emphasized the need to reduce business costs, which he identified as the immediate requirement to saving the export industry.

Many analysts argue that the appreciation of the Kwacha has further compromised the export-led strategy that the country embarked on in its development strategy. Exporters have lobbied the Government to intervene in the financial market to save their businesses, but the Government insists on letting market forces determine the exchange rate.

### **NO CERTAINTY YET OVER EXTENSION OF SACU-MMTZ TEXTILES DEAL**

It is not yet clear whether a 2000 agreement between the Southern African Customs Union (SACU) and Mozambique, Malawi, Tanzania and Zambia (MMTZ) will be extended when it expires in July. The agreement allows the

MMTZ countries to export textiles and garments duty-free to SACU.

To date the agreement contained less stringent rules of origin for Least Developed Countries, but it seems that SACU now wants to apply so-called double transformation criteria to this agreement in line with the SADC Trade Protocol.

This would require countries to have the capacity to produce both the fabrics and garments in order for such garments to enjoy preferential access to regional markets.

There are fears that without the agreement many businesses in the MMTZ countries may have to close shop.

According to a Malawian newspaper, *The Nation*, up to 6,000 jobs in Malawi may be at risk.

### **BETTER COMPETITIVENESS RANKING HIDES THE REALITY**

The improved ranking of South Africa in the Swiss International Business School IMD's annual *World Competitiveness Report* does not tell the full story. In two out of the four categories of assessment, the country's rating is worse than last year.

According to the report which was released in May, the only Southern African country that is assessed improved its ranking from 46th out of 60 in 2005 to 44th out of 61 in 2006.

The improvement is attributed primarily to improvements in the efficiency of businesses, particularly in terms of the implementation of adequate auditing and accounting practices, high social responsibility and the protection of shareholder rights.

On overall economic performance, South Africa fell from 42nd to 46th place and in the infrastructure category it dropped from last year's 58th position to second to last.

# INSIDE THE PRIVATE SECTOR

## IN THE SPOTLIGHT: AFRICAN HOT SAUCE, GOOD BUSINESS SENSE FOR A GOOD CAUSE

Having attracted the attention of various potential buyers at the recent Fancy Food Show in Chicago, Elephant Pepper Sauces may soon be available in supermarkets and specialty food stores across the United States.

And by buying the potent and tasty pepper sauce, U.S. consumers will not only be supporting a budding African entrepreneur, but also a worthy social and environmental cause. They will contribute directly to saving the lives of humans and mammals by supporting a cheap and environmentally friendly technique for managing conflict between rural farmers and elephants.

African Spices, the company that markets the Elephant Pepper products, donates 10 percent of the profits on this brand back to the Elephant Pepper Development Trust (EPDT), a Zambian-based not-for-profit organization that works to mitigate conflict between humans and elephants.

African Spices has been operating from Livingstone in the Zambezi Valley since 2001 and has a strong focus on small-scale subsistence farming that is both profitable and sustainable.

Since 2004, African Spices has been successfully exporting chili products to the global marketplace. Its major client has been the McIlhenny Company which produces the well-known Tabasco sauce. For two years in a row now, McIlhenny's newest supplier and the only one in Africa, African Spices, has been voted their top performer (best quality chili mash provided).

With a five-year renewable term already agreed, African Spices' contract with McIlhenny is poised to grow by 100 percent per annum over the next four years.

African Spices has been looking for creative ways to expand its markets and grow. Through its partnership with EPDT, African Spices is now looking at opening up another market opportunity in the specialty foods industry – Ele-

phant Pepper chili sauces, jams and relishes. The company is also looking to increase its supply of chilies from small-scale community growers from 3 percent (50 growers) to 40 percent (1,000 growers) over the next four years. While contributing to broad-based development, the diversification towards small-scale growers, as an integral part of African Spices' production strategy, ensures valuable supplier diversification. Currently other suppliers of chilies to African Spices are commercial growers and their own farms – presently at 50 percent and 47 percent respectively. Once the supply from small-scale farmers reaches the target of 40 percent, these figures are set to decrease to 30 percent each.

In many Southern African countries, elephants are viewed by locals as a pest rather than a tourist attraction. Hungry elephants, who reportedly can smell ripe corn from as far as 10 kilometers away, can trample an entire annual harvest in a single night.

Unable to afford expensive electric fences, farmers have employed various methods to keep the ravenous beasts at bay, including bright lights, loud noises, and night-watches. But these methods exposed farmers to other dangers such as attacks by predators and malaria. Over time they also became ineffective as elephants eventually grew used to them.

That was until farmers learned that elephants hate chilies.

Since 1998 the EPDT has assisted over 1,000 rural farmers in several Southern African countries to cultivate chilies to keep elephants at bay. Chilies are either planted as a buffer around their crops, crushed and mixed with engine grease and applied to single-line rope fences around crops and villages, or mixed with elephant dung into 'chili bricks' which are burnt like mosquito coils to discourage marauding elephants.

Chilies are not only an effective elephant-repellent, but also a lucrative cash crop that is drought resistant and adaptable.

According to Nina Gibson, EPDT Project Co-ordinator, "the farmers are able to make a profit from the sale of chilies, at least twice that of traditional crops such as cotton". Chilies require less land than cotton for the same return, have relatively low input costs, and do not exhaust soil nutrients as cotton does.

Eighty percent of EPDT project participants earn less than US\$2 a day. "However, after one season with one tenth of an acre of chilies, the daily earnings should be at US\$2.5", said Gibson in an interview with *Ashoka's Changemakers*.

To create a market for the chilies produced by small-scale farmers, EPDT established partnerships with two com-







PHOTO COURTESY OF THE EPDT

### Picking chilies in the Zambezi Valley in Zambia

mercial chili trading companies, the Chili Pepper Company in Zimbabwe and African Spices Pvt Ltd. Currently the EPDT's main partner, Livingstone-based African Spices, acts as the main for-profit facilitator between the collection of communal farmers, who normally harvest small amounts, and international markets.

African Spices buys chilies from small-hold farmers, at above-market prices that are guaranteed even before planting starts, at two depots in Zambia. These chilies are sent to South Africa where they are processed under license by a third party into the sauces, jams, and relishes that are now being marketed to U.S. buyers. The products are already available in two major supermarket chains, specialty food stores, and airport shops in South Africa. After only one year in the South African market, the company managed to sell sauces worth more than US\$10,000.

What has made this initiative successful is the fact that they managed to carve out a niche market even within the specialty foods industry. Elephant Pepper products appeal to the social conscience of consumers as they are undeniably part of the environmentally friendly and organic foods industry (the company is presently obtaining organic certification in the US). The initiative has managed to appeal to the hearts and pockets of international donors and other partners who have enabled African Spices to embark on a costly and extensive brand development exercise. To date, over US\$80,000 has been invested in the project.

African Spices, through the Elephant Pepper Brand, also managed to enlist the assistance of donors to overcome overseas marketing challenges and U.S. food and trade regulations.

More information on the project and products is available from [www.elephantpepper.org](http://www.elephantpepper.org).

### WBCG TO EXPAND CAPACITY AND SEEK NEW MARKETS

Namibia's Walvis Bay Corridor Group (WBCG) is undertaking a five-year expansion plan that includes increasing

the port's cargo capacity by 15 percent annually and seeking new markets around the region.

Johny Smith, business development executive with WBCG, says the plan involves both business and infrastructure development.

"Business development is a continuous process, whereas we are in the process to source funding for infrastructure development," says Smith.

The plan is part of a broad drive by the WBCG to turn the Port of Walvis Bay and the routes that lead to it into the region's leading trade corridors.

In April, WBCG opened a branch office in Lusaka to promote usage of the Port of Walvis Bay following the opening of a bridge connecting Zambia and Namibia.

The Group is also looking at Southern Africa's economic hub, Gauteng, and Botswana, which are linked to Walvis Bay via the Trans-Kalahari Corridor as potential markets for its services.

The Group has appointed Grinrod, a South African logistics management company, to develop the Trans Kalahari Corridor. Grinrod will set up infrastructure and build facilities to help increase business along the corridor.

Smith says the WBCG is very well established through its institutional framework, and recognized as a successful regional body, which can facilitate trade along the various corridors linking the Port of Walvis Bay with the Southern African Development Community (SADC) hinterland. What is needed, he says, is to build on this "strong platform" to promote the usage of corridors and increase imports and exports along the routes.

According to Smith, WBCG is considering several projects that would help increase business along the corridors but the Group is still seeking funding for feasibility studies for these projects.

Namibia has recently offered to lease pieces of land to Botswana and Zambia at the Port of Walvis Bay as dry ports for their imports and exports.

Smith says dry ports are another vehicle for Namibia to promote the use of the Port of Walvis Bay as an entry and exit point for imports and exports of these two countries.

The Namibian government is also looking at plans to develop the Trans-Kunene Corridor to connect Namibia and Angola.

Trade between Angola and Namibia has grown rapidly since the end of the war in Angola. The southern part of Angola is entirely dependent on Walvis Bay for imports, as the region is effectively cut off from Luanda due to damaged infrastructure.

# INSIDE THE DONOR COMMUNITY

## NEW DFID PROGRAMS TO INCREASE TRADE AND IMPROVE BORDER CROSSINGS

The UK's Department for International Development (DFID) recently announced two new programs to increase intra-regional trade in Southern Africa, provide improved access for emerging farmers to EU markets, and reduce waiting times at regional border posts by 30 percent.

The first four-year program will provide access to £4 million (US\$7.24 million) in funds for helping Southern African farmers to comply with supermarket quality standards in the UK and EU. The program also wants to see more regional sourcing by South African supermarkets and has set a target of a 30 percent increase for high value exports like flowers and berries by 2010. In addition, it aims to increase Southern African participation in international negotiations and agreements on standards.

The challenges of meeting sanitary and phytosanitary as well as labelling and other standards often severely restrict market access for developing countries.

In terms of the One-Stop Border Posts program, DFID will work with the South African Revenue Service (SARS) towards the establishment of one-stop border posts on South Africa's borders with Lesotho and Mozambique. DFID will work with the Common Market for Eastern and Southern Africa (COMESA) on a similar project at the Chirundu border crossing between Zambia and Zimbabwe. There is £500,000 (US\$905,000) available for legal and expert technical assistance under this program.

It is believed that reduced waiting times at borders will not only reduce transport costs, but also the incidence of HIV/AIDS among the region's truckers.

## USTDA FUNDS FOR INFRASTRUCTURE DEVELOPMENT

The U.S. Trade and Development Agency (USTDA) last month awarded seven grants

to support the growth of open and competitive markets in sub-Saharan Africa and strengthen US-African trade relations.

The grants, which total US\$2.77 million, will support: (1) the transportation sectors in the Common Market for Eastern and Southern Africa (COMESA), Nigeria and Senegal; (2) capital market development in West Africa; and (3) the electricity sectors in Nigeria and South Africa.

The grants include technical assistance and support to establish infrastructure in these sectors.

"USTDA recognizes the importance of infrastructure and trade capacity to the ability of the commercial relationship between Africans and Americans to reach its full potential," said USTDA Director Thelma J. Askey in remarks at the June 7 signing ceremony of the grants.

## SADC SECURES SUPPORT FOR ONE-STOP BORDER CLEARING

The EU will support a one-stop border project at the Beit Bridge border crossing between South Africa and Zimbabwe.

SADC acting chief director, Remmy Makumbe, recently told the *Post of Zambia* that Beit Bridge has been identified for the pilot project which is part of a broader effort that aims to harmonize customs procedures and documentation across the SADC region.

In May, Zimbabwe Revenue Authority (Zimra) and the South Africa Revenue Authority (SARS) agreed in to harmonize their customs procedures as part of their plans to implement the one-border stop, according to Zimbabwe's *Sunday News*.

The two sides agreed that travelers would be cleared once for passage into either country, thus preventing duplication of customs procedures.

To help speed up the clearance of goods, the arrangement will have immigration and customs clearing agents from Zimbabwe working on the South African side,

and South Africans would also do the same and operate from Zimbabwe.

## GTZ PROGRAM TO SUPPORT NAMIBIA'S SMES

The German Government's implementing agency for technical development, GTZ, is launching a new program that will provide technical and financial support to Namibian small and medium enterprises.

"We are aiming to create a more favorable environment for SMEs to grow in because they are our ultimate clients," says Christiane Kalle, the GTZ country director for Namibia.

The program will offer Namibian SMEs easier access to a range of business services including training, business consultancy and marketing.

According to Kalle, the German government is likely to contribute N\$20 million (US\$3 million) in support of the program over the next two years.

Last year, the Development Bank of Namibia (DBN) and Bank Windhoek signed a similar agreement under which DBN agreed to invest N\$30 million (US\$4.6 million) through Bank Windhoek to support entrepreneurs seeking financial assistance through the DBN's Emerging Small and Medium Enterprises (ESME's) branch.

SMEs in Namibia have historically played a significant role in the fight against poverty.

A USAID-funded program to support SMEs that ended in February 2006 created over 564 new jobs and provided technical assistance to over 2,386 businesses.

The program, which was implemented in collaboration with Namibia's Ministry of Trade and Industry, assisted SMEs to complete over 283 new business transactions worth over US\$3 million.

Most of the SMEs that benefited from the program were in the areas of tourism, building construction, textiles and apparel, leather goods, and wood work.



## PARTICIPANTS IN PRIVATE SECTOR FORUM SEEK TO EXPAND AGOA BENEFITS

The Corporate Council on Africa (CCA) earlier this month held a one-day Private Sector Forum in Washington, D.C. on the African Growth and Opportunity Act (AGOA). The meeting aimed to provide a platform for representatives of business and government officials to discuss ways to improve the business environment in African countries and expand opportunities under AGOA.

In opening remarks for the Forum, Deputy U.S. Trade Representative Karan K. Bhatia said that while U.S. imports from sub-Saharan Africa have more than doubled since AGOA was launched, AGOA countries have exported only a “fraction” of the nearly 6,500 products covered by the Act. Bhatia noted that some of the major challenges facing African countries in making the most of AGOA are poor infrastructure, difficulty in accessing finance, and lack of familiarity with the U.S. market.

The Forum covered several topics including African textiles and apparel trade, growing agricultural trade under AGOA, increasing U.S. private sector investment in Africa, infrastructure development and financing investment and trade.

Panelists in the agriculture workshop stressed the importance of developing the agribusiness sector and adding value to primary produce to maximize countries’ benefits under AGOA. One panelist, Bruce McEvoy of the UNIVEG Group, noted however that any efforts aiming to expand agro-food exports from African countries to the United States should reflect market demand.

McEvoy also warned against what he described as “rural-centric” projects where the primary focus is generating income for a large number of farmers. He argued that meeting market demand in terms of quality and consistency of supply would necessarily require selecting “the best growers” and relying on them for the long term.

Panelists, as well as several participants, agreed that sustained access to the U.S. market remains the biggest challenge for African companies. Among the reasons cited for lack of sustained market access were sanitary and phytosanitary regulations, weak market links, and poor marketing infrastructure.

Panelists in the textile and apparel session highlighted business concerns relating to the impending expiration of the current Rules of Origin, which allows AGOA beneficiaries to use third country fabrics in manufacturing garments that are destined for the U.S. market. Industry leaders said not extending the third country fabric provision will result in the sudden contraction of more than 80 percent of the AGOA apparel industry.

Panelists at the infrastructure plenary pointed out that the “soft” elements of infrastructure such as customs unions, free trade areas, investment treaties, and regional insurance providers are as important as hard infrastructure and must be included in large-scale infrastructure development plans.

Panelists in the financing plenary discussed the importance of U.S. private banks finding enhanced ways to partner with African private banks to mobilize capital for projects and investment and to increase their influence on the continent.

The Forum also included a Ministerial Luncheon that was attended by ministers of trade from the AGOA-eligible African countries. Much of the discussion at that session focused on ways to create “an enabling environment” that would make Africa more attractive for investment.

Many participants pointed out that U.S. investors are not flocking to Africa, despite a number of attractive opportunities and the high-return potential that the continent offers. Participants said the complexities of the social, political, and cultural terrain of African countries and poor infrastructure are among the reasons for the limited interest among U.S. investors.

Paul Ryberg, president of the Africa Coalition for Trade said African governments could help by lowering regulatory barriers to investment and facilitating cultural education for interested American businesses.

The Forum complemented the 2006 AGOA Ministerial hosted by the U.S. Department of State from June 6 to 7, 2006, and was attended by two hundred and seventy-five U.S. and African public and private sector participants.



**Participants in the Private Sector Forum hailed from Africa and the US. The Southern African delegation included some high-profile private sector representatives who also acted as panelists at AGOA Ministerial Forum Workshops**

## NEWS BRIEFS FROM AROUND THE WORLD

### US MAY FILE IPR CASE AGAINST CHINA THIS FALL

Later this year, the United States could seek a WTO dispute settlement case against China for failing to provide adequate protection of intellectual property rights (IPR). Assistant U.S. Trade Representative Tim Stratford said at a June 7 hearing before the US-China Economic and Security Review Commission that U.S. preparations for a WTO case are "very much advanced," and that a case could be filed unless China takes concrete steps to improve IPR conditions by then.

Stratford, who noted that China has made "noticeable improvements" in its IPR laws and regulations, stressed that the country suffers from what he described as "chronic over-reliance on toothless administrative enforcement and under-utilization of criminal remedies".

In a related development, the US and the EU have launched a joint action program to tackle global intellectual property piracy. A June 20 press release said the program will initially focus on working with China and Russia, but will also help emerging markets in Asia, the Middle East, and Latin America reinforce their own efforts to address intellectual property theft.

### CHINA, INDIA AND US INCREASE SHARE IN EU TEXTILE MARKET

China, India, and the US have each increased their share in the EU textile market at the expense of other major suppliers and African, Caribbean and Pacific (ACP) countries since the liberalization of the global textile regime in January 2005.

According to a report by the European Commission, China increased its textile exports to the EU by 42 percent and its share in that market by 82 percent in 2005. Similarly, India and the US managed to increase their textile exports to the EU by 18 percent and 14 percent, respectively.

The growth in exports from the three countries was at the expense of other major suppliers to the EU. Textile exports from ACP countries in 2005 fell by 17 percent. Mauritius' exports to the EU dropped by about 14 percent. Morocco saw a decline in exports of around 10 percent in value and volume.

Bangladesh, though, has largely kept its market share in terms of volume, but has seen the value of its exports fall by about 6 percent, suggesting that producers may have resorted to price cutting to maintain their markets.

Other major textile suppliers to the EU, including Pakistan, Indonesia, Thailand, South Korea, the Philippines, Taiwan, Hong Kong, and Macao, saw their exports drop dramatically last year. Among those countries, the report says, Hong Kong, Macao, and Taiwan suffered the largest decline in exports to the EU.

### US, RWANDA SIGN AGREEMENT TO DEEPEN TRADE AND INVESTMENT RELATIONS

The United States and Rwanda signed an agreement earlier this month aimed at strengthening trade and investment ties between the two countries.

According to a U.S. Trade Representative press release, the Trade and Investment Framework Agreement (TIFA) will provide a formal consultative mechanism to address bilateral trade issues and will help enhance trade and investment relations between the US and Rwanda. The agreement may also pave the way for sector specific and other trade-enhancing agreements.

At the signing ceremony, Deputy U.S. Trade Representative Karan Bhatia commended Rwanda for the several steps it has taken recently to open its economy and improve the business environment. "Rwanda in many ways is a model for what a developing country needs to do to harness trade to advance economic growth and development," Bhatia said, "The TIFA will

provide an opportunity for us to work together to expand trade and investment between our two countries and to work more closely in a broad range of trade-related areas."

U.S. imports from Rwanda were valued at US\$6.3 million in 2005, up 17 percent from 2004, and consisted mainly of coffee and tungsten ores. Over the past year, Rwandan firms have undertaken partnerships with major U.S. retailers to export fine basketwork and specialty coffee.

U.S. exports to Rwanda totaled US\$10.2 million in 2005.

### DEVELOPMENT SHOULD BE AT THE CENTER OF EPAs

EU Trade Commissioner Peter Mandelson told the EU/ACP Joint Parliamentary Assembly earlier this month that EPAs should be designed with the development dimension at their center. He said this means three things: (1) clear and simple rules covering all areas key to investment and markets, such as services, movement of goods and harmonized regional legislation, (2) linking the EPAs to accompanying development support to help in the process of change and protect the vulnerable, and (3) gradual changes in ACP market access with the greatest and fastest liberalization on the EU side.

### INDIAN GARMENT EXPORTS GROW BY 32 PERCENT

Indian garment exports have reached US\$8.2 billion in 2005, a 32 percent increase over the previous year, according to India's Minister for Textiles Shri. Shanker Sinh Vaghela.

Speaking at the inauguration of the Apparel House Auditorium of Apparel Export Promotion Council (AEPC), Vaghela also said the government has launched an apparel park for export scheme to give a further boost to garment exports, and that twelve projects have already been sanctioned.

# INSIDE THE WTO

## TRADE FACILITATION

Trade facilitation is a relatively new issue for the WTO. It was added as a separate topic to the organization's agenda ten years ago at the Singapore Ministerial, but negotiations on trade facilitation did not begin until August 2004 when the General Council decided by explicit consensus to launch negotiations on the basis of modalities agreed upon by Members.

According to the modalities, negotiations on trade facilitation will aim to clarify and improve different articles of the General Agreement on Tariffs and Trade (GATT) 1994 Agreement relating to freedom of transit, fees, and formalities connected with importation and exportation, and publication and administration of trade regulations. The negotiations also aim at enhancing technical assistance and support for capacity building to developing countries in this area.

### Status of the Negotiations

Negotiations on trade facilitation have progressed relatively well since their launch two years ago. Sources close to the negotiations say proposals tabled by Members during June included specific text on several potential articles in a future WTO agreement, raising the possibility that a comprehensive draft agreement might emerge as early as next month.

One proposal floated by a group of developed and developing countries was an informal 'non-paper' that outlined a multi-stage process for the implementation of a future agreement on trade facilitation, particularly with respect to commitments that developing countries would not be able to implement on their own.

Canada, Chile, China, the EU, Guatemala, Honduras, Japan, Mexico, Pakistan, Paraguay, Sri Lanka, and Uruguay proposed, among other things, that developing countries should, as soon as an agreement enters into force, commit to implementing measures that they already had in place and implement 'core' disciplines that might be included in a new

agreement. For measures that would be 'impossible' to implement without technical assistance, the paper would have developing countries formulate a 'capacity-building plan' in cooperation with donors and international organizations, and notify it along with specific implementation periods.

Sources say reaction to the proposed mechanism was very positive with several countries, including the US and India, welcoming the proposal.

Many Members expressed concerns, however, about issues such as harmonization of procedures, national treatment, choice of routes, and other obligations.



## NEGOTIATIONS ON NAMA AND AGRICULTURE

Earlier this month, WTO Director General Pascal Lamy invited trade ministers from key countries to Geneva for informal discussions aimed at reaching agreement on modalities in the agriculture and industrial market access negotiations.

Lamy said the meetings, starting the week of June 26, will be modeled after those held in July 2004, when a select group of trade ministers agreed on a general framework agreement – known as the "July Package" – that was later endorsed by all WTO Members.

Lamy had set the end of June as a deadline for an agreement on modalities for tariff cuts in agriculture after negotiators failed to meet the April 31 deadline that Members set during the Hong Kong Ministerial. But by mid-June, negotiators on agriculture and industrial

market access appeared far from convergence on any of the key issues under negotiation.

## BENIN REITERATES INTENTION TO LEAVE THE COTTON SECTOR

The Government of Benin last month reiterated its commitment to withdraw from all commercial activity in the cotton sector. The Government told the WTO in a May 18 statement that the privatization process, initially scheduled for completion by October 2005, ran into difficulties that prevented the Government from completing the process. The Government stressed that it is still planning on leaving the sector in line with its commitments to its development partners, the International Monetary Fund and the World Bank, whose conditions include the privatization of the sector. The statement did not set a new date for completing the privatization process.

## LDCs PROPOSE LESS STRICT RULES OF ORIGIN UNDER DUTY-FREE, QUOTA-FREE TREATMENT OF THEIR EXPORTS

Zambia submitted a paper to the WTO on behalf of LDCs last month proposing less strict rules of origin for exports that enjoy duty-free and quota-free access.

Citing the Hong Kong Ministerial Declaration, which calls on Members to "take additional measures to provide effective market access...including simplified and transparent rules of origin" to facilitate exports from LDCs, the proposal says that it is necessary to agree on a simplified set of rules of origin if a preferential trading arrangement is to be implemented.

"The challenge facing WTO Members is to define a set of rules of origin which will assist LDCs to take advantage of the improved market access conditions they have been provided with, so that LDCs are able to translate this improved market access into improved living standards of their populations..." the proposal said.



## INSAT FOCUS

# FACILITATING TRADE IN SADC: A SNAPSHOT

A visitor to Southern Africa arriving in Johannesburg will have a good first impression of transport facilities in the region. Johannesburg's airport has more amenities than many European airports, and the country's major highways are all in good condition. It is not until one begins traveling around the region that the difficulties of moving goods to markets become apparent.

Certainly, the Southern African Customs Union (SACU) may be the oldest free trade agreement in the world, but non-tariff barriers among its members such as transport and customs are causing delays and generating costs that are a drag on commerce.

"Compared to your global standards of 6 to 8 percent of GDP, Southern Africa is sitting at around fourteen to fifteen," said Wendy-Lee de Goede, business development manager for logistics giant UTI. "Our logistics costs are extremely high."

The region's transportation costs are twice as high as the rest of the world's. Those high costs translate immediately into higher prices for the goods that Southern Africa ships across borders and overseas. "Transport costs may contribute as much as 50 percent to products in certain markets," says Evans Marowa, the Trade Hub's transport advisor.

The best way to understand this discouraging reality is to follow cargo flows from the region's industrial heartland around Johannesburg. The shortest distance to the sea is along the Maputo Corridor, through to Mozambique's premier deep

water port in Maputo. Instead, most of what is produced in Gauteng ends up on a truck, heading south to Durban.

De Goede and Marowa agree that one of the main causes for this logistics disconnect is poor rail infrastructure. Ideally, rail and road transport should compete for cross-border traffic in the region.

But the declining standards of most national railways have led to under-utilization of rail, which is the cheapest and safest mode of transport. As a result, 80 percent of cargo in the region moves by road. "So not only do we use the longest routes, we also use the most expensive transport mode," says De Goede.



**A customs officer at the Walvis Bay Port has access to electronic customs information in a standardized format**

Another factor is the absence of one-stop border posts and the long delays in clearing cargo through customs. It is simply easier to keep goods within South Africa's well-developed infrastructure rather than cross through another country to reach the closest port.

"Durban to Johannesburg is easy. It is six hundred kilometers in one country.

And there are thousands of trucks on that route," said Barney Curtis, executive officer for the Federation of East and Southern African Road Transport Associations (FESARTA).

But in today's highly competitive global market, the argument for using the cheapest routes to get goods to market has never been stronger. The cost of land freight is usually based on the kilometers traveled because of fuel and maintenance costs. Cutting transport costs in Southern Africa will therefore require, among other things, reducing the distance the cargo travels before reaching the shipping port.

The most obvious way to reduce the distance traveled and cut transport costs is to develop cross-border corridors along natural trading routes.

That is one reason why FESARTA's Curtis likes trade corridors so much – they provide a framework around which to lobby government to improve what ails transport in the region. His group's participation in work on the Trans-Kalahari Corridor (TKC) since 1995 exemplifies another positive aspect of this trade facilitation tool: it engages major

players from both the private and public sectors to come up with solutions.

And the TKC is tackling regional trade issues head on, spearheaded by the Walvis Bay Corridor Group, whose members include trucking companies, port users, rail organizations, the national port authority, and the various departments of transport, trade and customs.

"A benefit at least has been to get the government and the private sector to come together and define a common agenda," said Jowie Mulaudzi from South Africa's Department of Transport.

The 1,800 km corridor is a good place to hone best practices, as it stretches over three countries, from Gauteng's economic powerhouse in South Africa, through Botswana, all the way to the port of Walvis Bay in Namibia – an ideal gateway to Europe and North America.

Bennett Nkabinde, a truck driver for Transworld Roadfreight who travels once a week from Johannesburg to Windhoek, says his weekly expedition has become much more pleasant thanks to the pilot implementation of the Single Administrative Document, or the "SAD-500," along the TKC. He says clearing customs used to be up to a six hour ordeal but now it takes him no more than 30 to 90 minutes at each border post, as the three countries along the corridor have harmonized their customs documentation.

The three countries are also negotiating longer border hours to further streamline the flow of cargo traffic. Mozambique and South Africa are engaged in similar talks, and intend to adopt the SAD-500 along the Maputo Corridor.

It was a significant step forward in facilitating trade when these countries willingly surrendered a degree of sovereignty at their border. And it is producing greater use of the corridor system.

Still, these are the first steps in a long-term effort. Vehicle overload controls still need to be harmonized throughout the region. Wesbank Transport has experienced this firsthand with its abnormal loads of shipping equipment into Botswana, and the varying national regulations on what permits are needed for those kinds of shipments.

"At the end of the day, everything costs more than it should," says E.P. van Rooyen, Wesbank's chairman. He also points out that there is still a reluctance to ship cargo across regional borders and that



**The bustling Port of Maputo has plenty of potential just waiting to be unlocked**

many of his customers prefer to go via a South African port because there are no borders.

This results in a lower volume of trade at other countries' ports, and fewer ships calling on them. An Automotive Industry Development Center study recently concluded that Walvis Bay would have been the fastest route to market as compared to congested Port Elizabeth and Durban, had it not required a transshipment via Rotterdam.

The automotive industry's natural port – Maputo – poses further challenges. The port cannot build an automobile terminal until a 24-hour border is established between Mozambique and South Africa.

"A lorry that loads in Rosslyn with BMW exports [should be able to] come non-stop through to the port, be unloaded, backloaded, and be back in Gauteng in less than 24 hours," said Dick Moore from the Maputo Port Development Corporation.

In the short term, the routes that may have the greatest success could be the Dar es Salaam and Trans-Caprivi corridors that provide port access to landlocked Zambia and the Democratic Republic of the Congo. Those countries

need efficient access to ports for their minerals, and they are far enough away from South Africa to mitigate further reliance on Durban.

Ultimately, it will be ongoing collaboration between government and the private sector that will further facilitate Southern Africa's trade. Where there is a lack of public sector capacity, say in road or rail construction, granting concessions for building infrastructure to private companies can provide what the region needs quickly, and without ensuing public debt.

"The private sector cannot [address these issues] in isolation and I don't think the government can," De Goede told INSAT in an interview. (See page 14 for the interview.) "Government must be a facilitator. It is the private sector that must drive these things and manage them from public sector and commercial aspects."

What is also required is a clear policy at the level of SADC, with all Governments committing themselves to establishing an efficient transport system. Given the competing demands on countries' financial resources, it is important that the efficiency of cross-border transport be maximized, while, at the same time, minimizing the investment in physical infrastructure.

## WE SPEAK TO...

## WENDY-LEE DE GOEDE, BUSINESS DEVELOPMENT MANAGER, UTI

*Drawing on your experience in the field of transport and logistics management in the region, to what extent have these issues undermined trade within Southern African and between the region and the rest of the world?*

If you cannot get your goods to market at a competitive price regularly and reliably, you cannot trade. This has been the case for many countries in Southern Africa where there are vast distances and many border posts to cross to get into a country. With many countries being landlocked and suffering from a sub-developed infrastructure network, getting goods to markets, not just international markets but also regional markets, becomes extremely difficult and expensive.

Rail infrastructure in Southern Africa is limited and the routes that are operational are capacity constrained and unreliable. At present, many companies could sell more in international markets, but are being constrained by the lack of rail capacity. Port capacity also cannot sustain demand. Port restrictions limit the amount of shipping lines calling at certain ports, and therefore shipping routes to all markets are affected.

*Can you give us a specific example that illustrates how transport has unnecessarily added costs to regional exports?*

Durban is the traditional export port for most cargo from the Southern African region.

The natural or closest harbor for the main industrial area of South Africa, from Gauteng to Limpopo province, is in fact the Port of Maputo in Mozambique. Depending on where the company is situated, inland costs could be reduced by US\$200-600 per 20' container were the goods to be transported to Maputo instead of Durban. However, owing to the lack of a sustainable rail link, restricted border operating times, cumbersome custom's procedures, and lack of main route shipping services calling at Maputo, the potential for

substantially reducing costs in the supply chain cannot be unlocked.

It is also important to note here that in the region not only do we often use the longest distance, we also use the most expensive method. More cargo is being moved by road than by rail – which is the cheapest and most environmentally friendly method.

*Many development specialists maintain that policy makers in developing countries are often disconnected from what is happening on the ground with respect to trade facilitation. Do you think this is true in the region?*

There is more and more awareness being created among policy makers of what is happening on the ground and the impact that political decisions have on economic development and trade.

I hope that the point is coming home, but I still do not believe that there is enough understanding or focus from governments in the region of the actual basic requirements of transport.

A good example is the reaction at the recent AGOA Forum of Ministers of Trade and Industry in Washington, D.C. to an educational film on trade facilitation, showing the movement of a truck through borders and pursuant challenges and delays, which seemed to draw surprise from some quarters and was an eye opener.

With this realization, we all need to work towards educating from the top, down and from the bottom, up.

*Do you think that the level of awareness of and commitment to trade facilitation in the region has changed in the past few years?*

Definitely. The threat of China and India in the past few years seems to have awoken a general realization of the importance of trade and general competitiveness. This is evidenced by the number of organisations being formed to address these issues: The Walvis Bay Corridor Group (WBCG), the



Maputo Corridor Logistics Initiative (MCLI), the Automotive Industry Development Center (AIDC), the South and East African Textile Federation, to name a few.

I also think as a result of private sector partnerships and private sector initiatives there has been growing awareness of the importance of trade facilitation and a growing drive to address these issues. The development of the MCLI was led by one company, the Manganese Metal Corporation (MMC), which recognized the need to develop the corridor to Maputo to address their business needs.

*And, in your opinion, what aspects of trade facilitation should be addressed first?*

Optimization of cargo movements and matching infrastructure development to cater for future cargo movements is essential. We must address rail development, implement one-stop border posts that operate 24hrs, and reduce trade bureaucracy.

In principle, the biggest cost is moving goods from the manufacturer, or primary producer, to the port. You see this for example in the United States [where] the cost of getting goods to ports is about double the cost of moving goods to other countries



by sea. This is just how it works. So without a proper rail network we will never see a real boost to trade, and I think once the rail is in place, the volumes can move. Then the border posts will automatically have to move along. The Port of Maputo is there and is ready at 100 percent capacity and willing and wanting to make it work.

***Addressing constraints related to trade facilitation effectively often requires close cooperation and coordination between neighboring countries. To what extent have countries in the region been able to cooperate to address their common problems in this area and what role has South Africa played in this?***

When you are crossing borders you have to link a large number of people and services in two or more countries.

Cooperation is taking place with the various customs unions coming into play. But it is still hindered by politics and individual country interests. Cooperation is not happening fast enough and with enough pace to keep up with development.

In general, most of the landlocked countries outside South Africa are more geared to understand the importance of trade facilitation because historically they have been forced to use the South African network. So all of the countries around South Africa realize that they are not using the most effective and feasible way to transport their exports and they are trying to develop it within their sub-regions. The Walvis Bay Corridor is another example where there has been a huge amount of investment and drive to open up the corridors, to open up the various ports.

The Maputo Corridor is a typical example of where the biggest inhibitor is development of the rail line. The South Africans and Mozambicans have been in discussions with regard to the rail concession for years and yet there is still no resolution. In the meantime, the Mozambican authority have now taken a decision to fund the upgrade themselves in order for progress to be made. However, until there is full cooperation on this corridor by all parties, the route will not become sustainable.

***When do you expect the SA-Mozambique line to be fixed?***

As soon as there is enough pressure from industry to ensure that the government mobilizes. By the end of 2006, but more likely in 2007, we sincerely hope to see significant changes on this corridor.

I think we are already pushing, and within the next two years the Maputo Corridor will be wide open. There are many new cargo owners in the area that will be moving cargo and I think once there is a direct service from Maputo to the Far East, which is the biggest market for goods from that area, we will see the flood gates opening. But it will still take time.

***In your view, what are the respective roles of governments and the private sector in addressing constraints in the area of trade facilitation?***

The private sector has to identify constraints to trade and engage with government to resolve the issues. By the same token, prior to taking decisions with respect to initiatives, the government should engage with industry to find out how the implementation should take place. A good example of this cooperation is the Automotive Industry Development Center (AIDC), which is a government body that focuses on developments within this critical industry in South Africa. The AIDC engages with the directors of the major Automotive Original Equipment Manufacturers in the country. The companies identify areas that they would like to develop and the AIDC then facilitates and manages these projects. Excellent initiatives such as Automotive Supply Parks have resulted.

I think over the past few years in Southern Africa there has been a realization on the part of the private sector that they will have to drive the process to their benefit. This is already happening with the formation of groups like the Maputo Corridor Logistics Initiative (MCLI) and the Walvis Bay Corridor Group (WBCG).

I think the MCLI is a good model for public-private cooperation and it is an example not only for African countries but for other developing regions. As a result there

has been more progress over the past year than in the last nine years. Focused work groups were established, composed of people nominated from various stakeholders – from the governments, from the rail operators and from private industry. The work that has been done and the level of dialogue that has been taking place has been startling, and I do think it will bear fruit.

***How can donors and investors play a role in addressing various constraints related to transport, customs, and logistics in Southern Africa?***

Many donors tend to engage with governments, and all of the money and ideas run through governments. Governments cannot do anything on their own. As mentioned earlier, governments should play a facilitating role, but it is the private sector that should drive the process. I would really like to see this focus on governments changing and see donors themselves directly engaging the private sector to understand where the money should go and [to] manage it in a way that reflects the real needs which can be identified by the private sector.

Money can always be handed to a government and then get distributed to address various priorities. But the question we need to ask is whether the money is used in the most effective way? Is it really distributed to address the most pressing needs? Is it going where it should go?

There is an example in Mozambique where there is a new coal mine being developed by a Brazilian company and prior to even starting developing the mine itself, the company has undertaken to upgrade the roads to get all the equipment that is required into that mining area. So developing the road was part of their long term investment in that region. These are the kinds of projects that are putting Foreign Direct Investment (FDI) directly into countries' transport network.

There is a need for change in how donor money is being channeled into the region. I would like to see much more support from donors going to enhance private sector management.

## GUEST PERSPECTIVE

# A BLUEPRINT FOR CUSTOMS REFORM

Mark Harrison is Adjunct Professor of Law at the University of Canberra and Associate Director of the Center for Customs and Excise Studies (CCES). He has been an advisor on customs capacity building programs in Thailand, Malaysia, Jordan, Kenya and Vietnam.

Customs reform and modernization is happening globally. Driven by economic and security imperatives, governments are placing greater priority on managing their borders. The pressures experienced by customs administrations in Southern Africa are no different nor less pressing than those in Central and Southern Asia, the Middle East, the Americas, and Europe.

### The Challenge of Reform

Customs reform is no small matter. Effective capacity building programs require wide-ranging changes in organization structure, legislation and procedure, information technology, infrastructure and staff development – and usually in that order. These changes can be undertaken simultaneously or in stages, but without a focus on all aspects, the change will inevitably be piece-meal and, at best, only partially effective.

The initial investment in reform can appear daunting for cash-strapped governments, and the benefits of modernization may not become apparent for years. But the long-term benefits of reform will greatly outweigh short term costs. There are many examples of customs reform where revenue has increased substantially despite concurrent tariff reductions. In Peru, for example, the reform program begun in 1990 has drastically reduced customs staff and clearance times. At the same time, customs revenues have increased from 23 to 36 per cent of budget revenues, despite reducing tariff rates from a range of 10-110 percent to 4-25 percent.

Strong and enduring leadership is imperative at both the political and organizational level. Change must be driven from the top. Strong leadership in the South African

Revenue Service and the Kenyan Revenue Authority has led to impressive progress towards improved performance.

Inter-governmental cooperation is also at the heart of any reform. The Trans-Kalahari Corridor is a good model which demonstrates that concerted action between governments to reduce transit times, simplify and harmonize documentary requirements and speed up inspection and clearance can significantly reduce transportation costs.

### Structural Reform

South Africa and Kenya are also examples of structural reform making an impact. The creation of autonomous revenue authorities has greatly increased the ability of the combined tax and customs functions to deliver more efficient and effective administration. Independence from portfolio departments such as Finance provides the opportunity to think and act outside traditional bureaucratic structures. It also enables governments to strengthen the accountability of agencies, both through controlling departmental expenditure and improved accountability for revenues collected. Improved working conditions for staff also reduce incentives for corruption.

Some countries have retained the distinction between customs and tax, but have transferred revenue responsibilities to a revenue body while customs undertakes a greatly increased border security role.

What is clear is that outdated hierarchical structures need to be replaced by results-oriented agencies, with flatter structures. Australia, Canada, New Zealand and Peru are all examples of countries which have implemented such structures.

### Legislative Reform

Legislative reform is imperative for customs reform as it underpins all other reforms, providing customs with, among other things, the powers necessary to manage risk and use electronic commerce and powers of audit and document retention and production.

Kunio Mikuriya, deputy secretary general of the World Customs Organization (WCO), has identified key principles which should underpin legislative reform.

Some of these principles are:

- To establish the competency of customs authorities to administer and enforce customs laws, develop administrative regulations, adjudicate or settle cases, and make decisions on customs administrative matters;
- To promote transparency and predictability;
- To provide for modern and simplified customs systems and procedures;
- To encourage cooperation with other customs administrations and governmental organizations and with the private sector;
- To provide for penalties proportional to the offence.

With a proper legislative base in place, customs is then in a position to introduce new procedures and new technology.

### Procedural Reform

Two WCO instruments – the Revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures and the Framework of Standards to Secure and Facilitate Global Trade – provide blueprints for managing the trade facilitation and supply chain secu-

rity functions of border agencies.

At the heart of both concepts is the proper application of risk-managed approaches to customs work. This can mean fundamental shifts in thinking – from real-time compliance to post transaction audit; from physical control to documentary (electronic) control; from assessment by customs to self-assessment by traders. Reduced paperwork and fewer cargo inspections do not mean reduced customs control but, as demonstrated by The Trans-Kalahari Corridor, improved trade flows.

These reforms require a leap in the ability of customs agencies to make sound judgements through the use of intelligence, smart technology and skilled, perceptive staff.

#### Technology

Information technology (IT) is at the heart of reform. It is essential for the clearance of goods, for warehouse inventory control, for the payment of and accounting for revenue, for the management of information and intelligence, for statistical collection and for the management of human resources. IT reform must be managed well, not as a quick fix, but as a carefully considered long-term solution to a country's needs. IT should follow the business process reengineering outlined above.

But countries should be careful not to get ahead of themselves in the use of IT. A country should not go for highly sophisticated clearance systems if it has neither the expertise to use them nor the infrastructure to maintain them. Sometimes it is best to buy off-the-shelf, as is proposed for Vietnam. It is fundamentally important that countries select the best technology for themselves, and that they base this decision on the specifications of that particular technology.

#### Infrastructure and Staff Development

A modern customs house is very different from the old style customs house. Electronic lodging and processing of documents removes the interface between traders and customs officers, so

the old-style long room is a thing of the past. Modern customs houses require high quality computer facilities and offices for auditors and intelligence analysts. Customs quarters in ports and airports need space for screening and inspection equipment and for surveillance cameras and monitoring systems. Border posts need to be equipped and staffed for continuous operations.

The modern customs officer needs to be skilled in decision making, empowered to exercise discretion, computer literate, and be a risk and a compliance manager. Above all, the cancer of corruption has to be eliminated. IT will help with this because it reduces the interface between trader and officer. In addition, given that modern customs officers require skills not previously needed, there will be recognition that they need to be adequately rewarded for this job.

#### Conclusions

Too many customs authorities, particularly in developing countries, continue to be under-funded and under-recognized by government. Customs modernization is fundamental to national security and prosperity. Failure to act now is merely to postpone an inevitable, and often more costly, reform program in the future.

If contemplating reform, countries should remember these ten lessons:

- Establish a strong, competent and accountable leadership team to drive the reform;
- Recognize that there is an urgency that makes reform imperative, though it may take years for the reform to be completed;
- Identify and deliver some “quick wins” to demonstrate early on that the reform is effective;
- Use change management programs to prepare the staff to deal with change;
- Plan and budget carefully for the change, and ensure adequate funding;
- Let the reformed business process drive the new IT, not the reverse;

- Establish performance measures at the outset to measure the effectiveness of reform;

- Recognize and reward staff for demonstrable improvements in performance;

- Aspire to meet recognized international standards for new procedures; and

- Cooperate and collaborate with industry and government agencies affected by the reform.

### ABOUT THE CENTER FOR CUSTOMS AND EXCISE STUDIES

The Center for Customs and Excise Studies, University of Canberra, provides an international focal point for education, training, consultancy services and research capabilities relevant to customs and excise administrations, related border management agencies, and the private sector.

Consultancy services provided by the Center include strategic customs modernization and reform studies, capacity building programs, policy reviews, trade facilitation reviews, risk management, compliance management, and change management programs, IT systems development, legislative reform programs, self-assessment regimes, organizational and structural reform programs and business process reengineering.

In excess of 30 training programs are currently being offered by the Center, all of which reflect world best practice in border management and operational techniques including leadership and management, legal aspects of international trade, supply-chain security, and new and emerging technologies.

For more information on the Center see <http://www.customs-centre.canberra.edu.au>



# TRADE RESOURCES

## SOURCES ON TRADE FACILITATION

Earlier this year, the Council for Scientific and Industrial Research (CSIR) published the **Second Annual State of Logistics Survey for South Africa**. The report found that transportation costs remain the biggest logistics cost driver in South Africa and that they have increased by 11 percent since last year. Total logistics costs were estimated at 15.2 percent of GDP, the same as for the previous year. This does not compare well with South Africa's major trading partners for whom logistics costs stood at 8.6 percent for 2004. The full survey is available at [http://www.csir.co.za/websource/ptl0002/pdf\\_files/news/2005/2005\\_SOL\\_survey\\_final\\_Dec5.pdf](http://www.csir.co.za/websource/ptl0002/pdf_files/news/2005/2005_SOL_survey_final_Dec5.pdf).

The **UN Trade Facilitation Toolkit and Forms Repository** aims to help importers and exporters overcome the challenges associated with locating the correct forms and obtaining correct information on the necessary procedures for submitting these forms. It also aims to assist countries to align their trade documents with international standards.

The Toolkit is available at <http://unece.unog.ch/etrade>.

The internet portal for accessing documents, administrative, and legal instructions and tariff information is [www.unedocs.org](http://www.unedocs.org).

Every quarter, the UN Conference on Trade and Development (UNCTAD) publishes a **Transport Newsletter**. This is an invaluable source of references to other trade resources, recent studies, interesting articles, and insightful editorials. Anyone who is involved or interested in transport should subscribe to this newsletter on <http://extranet.unctad.org/transportnews>.

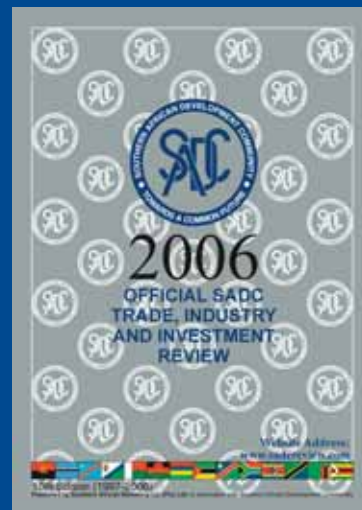
Some of the resources that were highlighted in the most recent issue include:

The **Legal Issues in International Trade and Trade Logistics** sub-site of UNCTAD's Trade Logistics Branch website where visitors will find up-to-date information on agreements, reports, and other documents. <http://www.unctad.org/ttl/legal>.

UNCTAD produces **Technical Notes on Trade Facilitation Measures** within the Trust Fund project "Capacity Building in Developing Countries and Least Developed Countries to Support Their Effective Participation in the WTO Negotiations Process on Trade Facilitation", financed by the Governments of Sweden and Spain. Thirteen notes have already been produced and they cover topics such as customs, trade regulations, administration, documentation, legal affairs, and border agency coordination. To access these notes, visit <http://r0.unctad.org/ttl/technical-notes.htm>.

## NEW RESEARCH

The **Official SADC Trade, Industry and Investment Review**, now in its 10th year, is the complete guide to the SADC Region and is available both in print format and on the worldwide web. Published jointly by Southern African Marketing Co. (Pty) Ltd. and the SADC Secretariat, the SADC Review is the official annual yearbook of the Southern African Development Community (SADC)



and the most comprehensive guide to trade, industry and investment in the SADC Region. The 2006 edition of the publication contains updated in-depth information on the Southern African Development Community, its 14 Member States, SADC development projects and programs, and special features on SADC's Global Partners. Its strategic free distribution and on-line version ensures that it reaches key decision-makers in the private and public sectors both regionally and internationally. The online version of the SADC Review 2006 is available at [www.sadcreview.com](http://www.sadcreview.com). The publication date for the print version is June/July 2006.

**AGOA, Exports and Development in Sub-Saharan Africa**, examines the impact of AGOA on Africa's exports to the US and puts them in a development context. The paper, authored by Paul Brenton and Mombert Hoppe of the World Bank, says that non-restrictive Rules of Origin for apparel have been one of the major drivers of export growth and argues that not extending these rules could have a devastating impact on employment and earnings in 6-12 countries and remove an opportunity for diversification in other beneficiary countries. To download the report, visit <http://topics.developmentgateway.org/trade/rc/ItemDetail.do~1061284?intcmp=3007&itemId=1061284>.

The **Annual African Economic Outlook** offers an in depth comparative panorama of the economic, political and social situation in 30 African countries. For excerpts from the publication and information on how to get hold of the full report, visit [www.oecd.org/dev/publications/africanoutlook](http://www.oecd.org/dev/publications/africanoutlook).

# INSIDE THE TRADE HUB

## CUSTOMS BOTTLE-NECKS IDENTIFIED

In July, Mozambique will conclude the final phase of a Time Release Study that aims to identify bottlenecks in customs and determine the infrastructure, policy, and procedural changes required to improve the customs clearance process.

The Time Release Study, which estimates the time lapsed at each stop in the cargo release process, has relied very heavily on active participation of all stakeholders from the government and the private sector. A Working Group – consisting of representatives from the customs authority, relevant government departments, freight forwarders, pre-shipment inspection companies and transporters – was formed to take part in this study. It was the first time that such a group of stakeholders were brought together to discuss the challenges of balancing revenue collection and security concerns of the Customs Authority and the competitiveness considerations of the private sector.

Ranga Munyaradzi, senior customs advisor at the USAID Trade Hub, and Robert Struthers, a World Customs Organization technical officer, assisted the Working Group to develop a questionnaire, guidelines, scope and the methodology for the study. The questionnaire was then administered at all the major entry points into the country. During the final stage, the data and information collected by the questionnaire will be analyzed and a final report with recommendations will be compiled.

Mozambique is the second country in the region to undertake such a study as part of its customs reform effort. At the end of 2005, Malawi became the first country in Southern Africa to conduct a Time Release Study. The study showed that the time between the arrival of goods at Customs and their release was significant and caused costly delays to traders.

The Trade Hub is currently assisting Malawi to design an action plan for implementing the recommendations of the final report.

## REPORT TO ASSIST ZAMBIA IN WTO TRADE FACILITATION NEGOTIATIONS

A team from the USAID Trade Hub presented the final draft of a report identifying Zambia's most pressing needs with respect to trade facilitation to a group of Zambian stakeholders earlier this month.

Zambia approached the Trade Hub to carry out a detailed assessment of the status of trade facilitation in the country and, to the extent possible, assess the resource implications of implementing a future World Trade Organization (WTO) Agreement on Trade Facilitation.

During initial discussions with stakeholders, the Trade Hub team found that Government officials and the private sector had different perceptions regarding various issues relating to trade facilitation. The team also found that there was a significant lack of understanding of several WTO issues and of the multilateral negotiating process in general.

There was, however, agreement among various stakeholders on several key issues: including, the need for Government to consult exporters and importers, the need to expedite the clearance of goods at borders, the need to upgrade the country's road and rail infrastructure, and the need to urgently create a one-stop border crossing at Chirundu.

The needs assessment covered a wide array of issues and identified technical assistance needs with respect to legislative reform, institutional capacity building, and training, as well as equipment and infrastructure.

As the impact of the high costs of getting goods to markets has become better understood over the past decade or more, a growing share of trade-related donor assistance has been allocated to trade facilitation.

As a result of the assessment, Zambia is in a better position to enhance its capacity to effectively participate in WTO negotiations on trade facilitation, and to articulate its needs in trade facilitation to donors.

The approach developed by the Trade Hub to carry out this study, using questionnaires developed by the WTO and World Customs Organization as a base, will serve as a model of "good practice" for other countries in the region. The Common Market for Eastern and Southern Africa (COMESA) has shown interest in collaborating with the Trade Hub for similar work in the COMESA region during 2006.

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# INSIDE THE TRADE HUB

## ROUNDTABLE DISCUSSION, FAMILIAR CHALLENGES AND LESSONS TO BE LEARNT

Southern Africa's business environment remains a major obstacle to the region's competitiveness, was the conclusion of participants in a regional roundtable discussion organized by the USAID Trade Hub on May 23 in Johannesburg.

Public and private sector representatives from 11 SADC countries agreed that high volatility in exchange rates, crime, theft and corruption, economic and regulatory policy uncertainty, customs delays, inefficient and expensive transport routes and lack of transparency of rules and regulations continue to undermine the competitiveness of regional businesses to compete globally.

Two recent studies on the business environment, the World Bank's *Doing Business in 2006* survey and the SADC *Regional Business Climate Survey*, provided an empirical basis for discussions. Bernard Drum, from the World Bank, reported that the *Doing Business* survey found that half of the Southern African countries ranked among the bottom half of business operating environments worldwide, and that only two countries, South Africa and Mauritius, made it into the top 30.

Discussion was further stimulated by the launch of a series of five educational films on trade-related issues produced by the Trade Hub. The first in the series, 'The Business Environment: Toward a More Competitive Southern Africa', provided an ideal departure point for the day's deliberations as it examines challenges in five areas: attracting investment, streamlining customs, more efficient transportation, corruption and HIV/AIDS.

But, rather than just mull over by now well-identified problems and challenges, the roundtable was intended to provide a platform for sharing best practices and successes.

The short film on the experience of the Botswana Cattle Producers' Association in working for policy change in the country, also screened, contains valuable lessons on how the private sector should organize themselves and engage government to improve the business environment. The organization's chairman, Philip Fischer, provided more information



**Nikolaus Czipionka delivered the keynote address**

and responded to questions from the participants.

Public sector officials at the roundtable, for their part, touted reforms and efforts to streamline procedures as major accomplishments, and encouraged the private sector to be active, constructive participants in enhancing the business environment.

Nikolaus Czipionka, Task Force Director of the Botswana Business and Economic Advisory Council (BEAC), and former chief economist at Standard Bank, in his keynote address "A Vision for a Dynamic and Competitive Southern Africa", challenged participants that Southern Africa must seek its fortunes in the context of internationalization and globalization – with the private sector as the front driver.

He noted that when investors scan the globe for the next region to take off – they do not pick Southern Africa. But as a region it is well placed to take off – it has a large proportion of global mineral wealth, it has a relatively good infrastructure and it has South Africa, an increasingly dynamic economic driver for the region. He suggested that countries in the region must become outward looking, private sector/business – oriented, wealth creating and take more responsibility for past difficulties or failures. This may mean making some hard choices and giving up cherished ideas, like a desire to establish traditional manufacturing industries and instead concentrating on niches, and focus on minerals, agriculture, energy resources and being a haven for tourism and specialized service industries.

While in agreement that Southern Africa has come a long way in improving the conditions for doing business, participants stressed that much remains to be done to achieve a competitive business environment.



**The various presentations, films and panel discussions stimulated animated discussion among participants**